

Message Text

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11

ACTION EA-14

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USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00 XMB-07

OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01 AGR-20 CEA-02

STR-08 DRC-01 /185 W

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 8614

INFO AMEMBASSY CANBERRA

UNCLAS WELLINGTON 2794

EO 11652: NA

TAGS: EFIN NZ

SUBJECT: NEW GNZ POLICY ON BORROWING ABROAD BY FOREIGN OWNED
COMPANIES AIMS AT CONSERVING FOREIGN EXCHANGE

REF: A. WELLINGTON A-69 JUNE 6, 1974

B. WELLINGTON'S 2260 JULY 18, 1974

C. WELLINGTON'S 2417 AUGUST 1, 1974

1. THE MINISTER OF FINANCE HAS ANNOUNCED A NEW POLICY WHICH
WILL HAVE THE EFFECT OF REDUCING THE AMOUNT OF BORROWING IN
NEW ZEALAND ALLOWED PREDOMINANTLY FOREIGN OWNED COMPANIES
OPERATING IN NEW ZEALAND. HENCEFORTH MINORITY NEW ZEALAND
EQUITY HOLDING IN A FOREIGN OWNED COMPANY OPERATING IN NEW
ZEALAND WILL BE GIVEN A LOWER WEIGHTING IN ASSESSING THE AMOUNT
OF BORROWING IN NEW ZEALAND WHICH WILL BE PERMITTED AS COMPARED
WITH COMPANIES WITH EQUAL OR PREDOMINANT NZ SHAREHOLDING.

2. THE ALLOWANCE FOR RAISING LOANS IN NEW ZEALAND FOR
WORKING CAPITAL REQUIREMENTS OF UP TO 10 PERCENT OF TURNOVER
WHICH FORMERLY COULD EXTEND TO ESTIMATED FUTURE TURNOVER
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(EXCEPT IN SPECIAL CIRCUMSTANCES), WILL NOW BE LIMITED TO 10

PER CENT OF THE PREVIOUS, REPEAT PREVIOUS, YEAR'S
TURNOVER. HOWEVER, SPECIAL CONSIDERATION WILL BE GIVEN
TO WORKING CAPITAL NEEDS FOR INCREASED EXPORT SALES.

3. THE ANNOUNCEMENT POINTED OUT THAT THE FAVORABLE
LEVEL OF INTEREST RATES IN NEW ZEALAND COMPARED WITH
RATES ABROAD MADE NZ AN ATTRACTIVE PLACE TO BORROW.
BECAUSE THE LOAN REQUIREMENTS OF ALL COMPANIES CANNOT
BE MET FULLY FROM WITHIN NEW ZEALAND, SOME WOULD BE
OBLIGED TO BORROW ABROAD. THE GNZ HAS TAKEN THE POSITION
THAT COMPANIES WITH SIGNIFICANT FOREIGN OWNERSHIP WOULD
GENERALLY BE ABLE TO RAISE LOANS ELSEWHERE MORE EASILY
THAN WHOLLY OWNED NZ COMPANIES. ALSO GNZ FEELS IT IS MORE
JUST TO EXPECT COMPANIES WHOSE PROFITS ACCRUE PRINCIPALLY
ABROAD TO SATISFY A LARGER PART OF THEIR FINANCIAL NEEDS
FROM ABROAD.

4. COMMENT: THIS DISCRIMINATION AGAINST PREDOMINANTLY
FOREIGN OWNED COMPANIES IS DESIGNED TO KILL TWO BIRDS WITH
ONE STONE, (1) EASE THE PRESSURE ON BORROWING DURING A PERIOD
OF EXTREMELY TIGHT LIQUIDITY AND (2) SLOW UP A BIT THE DRAIN
IN FOREIGN EXCHANGE BY INDUCING SOME PRIVATE BORROWING ABROAD.
ONE BRIGHT BIT OF NEWS, GNZ SPOKESMEN STILL INSIST THAT GNZ
IS NOT CONSIDERING DIRECTLY RESTRICTING IMPORTS. MEASURES
SO FAR ANNOUNCED HAVE BEEN AIMED AT INDIRECTLY
INDUCING A SHIFT OF THE IMPORT PATTERN MORE TOWARD
ITEMS NEEDED BY INDUSTRY, SUCH AS MATERIALS AND EQUIPMENT
AND AWAY FROM LESS ESSENTIAL CONSUMER ITEMS. IT REMAINS
TO BE SEEN WHETHER THE INDIRECT MEASURES WILL BE
SUFFICIENT OR CAN TAKE EFFECT SUFFICIENTLY QUICKLY TO
REVERSE THE INCREASING IMPORTS TREND BEFORE FOREIGN
EXCHANGE RESERVES FALL BELOW THAT GNZ CONSIDERS AN
ACCEPTABLE LEVEL.
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